

## **MINUTES**

### **BOARD OF TRUSTEES OF THE PUBLIC EMPLOYEES' RETIREMENT FUND 143 West Market Street, Suite 500 Indianapolis, IN 46204**

**April 12, 2002**

#### Trustees Present

Jonathan Birge, Chair  
Richard Doermer, Vice Chair  
Teresa Ghilarducci  
Steven Miller  
Nancy Turner

#### Others Present

Mike Gery, Executive Assistant to the Governor  
Diana Hamilton, Special Liaison to the Governor for Public Finance  
Richard Boggs, Burnley Associates  
Stephanie Braming, William M. Mercer Investment Consulting  
Mary Beth Braitman, Ice Miller  
Eric Swank, Ice Miller  
William Crawford, Local 9212 UAW/AFT  
Doug Todd, McCready & Keene, Inc.  
Elaine Beaty, McCready & Keene, Inc.  
Karen Franklin, National City Bank  
E. William Butler, PERF Executive Director  
Patricia Gerrick, PERF Chief Investment Officer  
Joseph Duncan, PERF Investment Analyst  
Krena Patel, PERF Intern  
Caroline Drum Bradley, PERF Internal Auditor  
Diann Clift, PERF MIS Director  
Ed Gohmann, PERF Legal Counsel  
Doug Mills, PERF Chief Financial Officer  
Jim Osborn, PERF Project Director  
Kevin Scott, PERF Chief Benefits Officer  
Lynda Duncan, Minute Writer

## ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of April 12, 2002 Meeting
- B. Minutes:
  - ❑ March 15, 2002 Board of Trustees Meeting
  - ❑ March 15, 2002 Benefits Administration Committee Meeting
- C. Reports, Summaries, Memorandums and/or Letters Concerning:
  - ❑ Actuarial Valuations
  - ❑ Year to Date Expenses Update

A quorum being present, the meeting was called to order.

## REGULAR SESSION

### 1. MINUTES APPROVAL

**MOTION** duly made and carried to approve the Minutes of the March 15, 2002 meeting of the Board of Trustees.

*Proposed by: Steven Miller*  
*Seconded by: Richard Doermer*  
*Votes: 5 for, 0 against, 0 abstentions*

### 2. DISCLOSURES

Mr. Doermer – Bank One stock ownership. Mr. Doermer noted that a full report on his holdings was held by PERF for public record.

### 3. EXECUTIVE DIRECTOR'S REPORT.

- a. Municipal Employer Rates. This item was deferred for discussion at the next Board Meeting.
- b. Valuation Reports. Mr. Todd provided an executive summary of the actuarial valuations for the following plans. (Valuations dated July 1, 2001, valuation year July 1, 2001 – June 30, 2002):
  - Prosecuting Attorneys Retirement Fund (PARF). A substantial increase in cost was noted. This was due primarily to the net experience losses and the change in the benefit formula (30% after 10 years and 60% after 22 years). Mr. Todd also noted an unusual zero unrealized gain or loss. The actuarial value return on assets was 0.1%. He suspected that this should be higher but would review the assets to see if anything needed to be revised. Gains and losses were normally smoothed in over a four-year period. PARF is an unusual fund in that there is a very high turnover every election year. Last year there were 240 active members compared to 211 members in the current year. For

terminated participants with service, numbers increased from 111 to 178. Even though these terminated members are not vested, they are still included in the valuation. Payroll increased even though the number of people reduced from 240 to 211. These figures include prosecuting attorneys and chief deputies. The actuarial accrued liability jumped because of an increase in the benefit formula that had been modified to parallel that of the judges. This resulted in an unfunded liability increase. Normal costs also increased and the total annual cost increased by more than \$500,000. The estimated fiscal impact for the change in benefit formula has been accurate. The increase in liability was about \$3 million, but cost, as a percent of payroll, did not increase as much as anticipated. The present value of accrued benefits increased by approximately 50%. Cost, as a percentage prior to the change, was 4.3%. Once the new benefit formula had been reflected, this increased to 6.9%. The fiscal impact had a 4% increase. The State should contribute \$947,000 this year. This level of funding was the actuarial figure and it was noted that if the State were to defer payment, this would signify a loss that would have to be amortized over a period of 30 years. If the present value of accumulated plan benefits is compared to assets, PARF's figures for the previous year were good. PARF is only covering about 90% of the vested accumulated plan benefits, and only between 67 – 70% of the total accumulated plan benefits. This was expected to improve, especially when considering the actuarial value of assets.

- Judges' Retirement Plan. The results were as expected. The number of active participants dropped from 336 to 328. The number of retired members increased from 228 to 242. The anticipated payroll was fairly level because there has been no increase during that time period. Investment return on valuation assets was understated. This could be because this plan has the same unusual zero unrealized gain or loss as PARF. This will be reviewed to see if revisions are necessary. Unfunded liability was about the same as last year. Cost as a percentage of payroll went up slightly. The "Judges" Retirement Plan is a pay-as-you-go fund.
- Legislators' Defined Benefit Plan. The defined benefit plan was closed on May 1, 1989 and numbers have been steadily declining as actives become retirees and then pass away. In 1998, there were 64 active members; and now there are 58. The number of retirees rose from 28 to 34 during the same time period. The amount of annual benefits had increased to \$237,000. The investment return on the actuarial value of assets was 6.4% for the year ending June 30, 2001. The legislators had an unrealized gain and loss that has been smoothed out. Therefore the unfunded liability decreased from \$896,000 to \$842,000. Last year, the total annual cost per participant was about \$1,500 (including retirees). This year it increased by approximately \$250 to a little more than \$1,750. It was noted that the legislators have two plans: The Defined Benefit Plan and the Defined Contribution Plan (DCP). Ms. Ghilariducci noted that it would be of benefit to have the legislators in the

same circumstances as PERF members and they should be encouraged to rejoin PERF. The DCP plan has a 20% contribution paid by the state and 5% by the members. This amount had been decided when there was a combination of plans to meet benefit limitations. The combination limit is no longer there.

- 1925, 1937 and 1953 Municipal Police Officers and Firefighters Pension Plans (including converted members). The Actuarial Valuation was effective January 1, 2001. Mr. Todd reminded the Board of Senate Bill 120 which transferred all non-active vested “Converted Members” as of June 30, 1998 from cities and towns to the 1977 Fund. In addition, this legislation reduced the retirement age in the 1977 Fund from 55 to 52. Annual benefits dropped from \$162,600 in 1998 to \$150,700 in 1999 as a result of this legislation. Accrued liability continued to increase. This is also a closed group (similar to the Legislators’ Defined Benefit Plan). Eventually, the pension benefits and retirements will slacken off. The Pension Relief Fund market value increased 2000 - 2001. In 2002, however, this Fund will be substantially reduced due to a double pay out last year as a result of Senate Bill 260.
  - Mr. Doermer asked Mr. Todd to provide figures for the consolidated unfunded liability for the PERF’s six retirement plans, and it was agreed that this would be provided at the next meeting. PERF has a \$418 million unfunded liability surplus but this figure has fallen from the previous year (\$567 million) due to the affects of markets, assets, etc. If the retirees and the ASA are included, the total Fund is approximately 105% funded.
- c. Internal Auditor. Mr. Butler introduced Ms Caroline Bradley, who recently took up the position of PERF Internal Auditor. As part of her mandate, she will implement a risk assessment of the fund and will be working closely with the members of the Audit and Budget Committee and the PERF Staff to put together an audit review schedule.
- d. Call Center Manager. The new Call Center Manager, Mr. Donovan Cartwright, was introduced to the Board. He will develop the Call Center from the ground up. The hiring process for the other Call Center personnel was complete. Initial training would take about 3 weeks. A before and after study will be carried out and quality improvement teams will be developed (e.g. for the automation of the investment direction forms process). It was noted that the development of the Call Center process would be a learning process for the entire organization. Mr. Doermer asked how dependent PERF would be on the operational status of SIRIS in terms of quality of service. He was advised that a great deal depended on the success of implementation of SIRIS Phase II. There would be eight people working in the Call Center, 5 permanent and three temporary staff. The determination of success would depend on the number of satisfied customers at the Call Center level. In addition, members would be provided with options to e-mail, telephone and fax.

#### 4. INFORMATION TECHNOLOGY UPDATE.

- Conversion of SIRIS Stage II was scheduled to commence on April 19, 2002, with the goal of going “live” on April 24. At this time the project managers were still monitoring last minute issues and would make their final recommendations at a steering committee meeting on April 16. At the last Board meeting certain concerns were raised regarding the structure of the project, contract details and the response time. Ms. Clift considered that all objectives specified would be accomplished once the project had been completed. She explained that the contract had differed from standard technical contracts because PERF had been brought into the process after the data had been selected and customized by the Teachers’ Retirement Fund. PERF had subsequently developed its own requirements. The number of PERF’s topics and challenges also differed from those of TRF due to the number of funds administered by PERF.
- Processing time. It had been mentioned at the last meeting that some SIRIS operations would be slower than those of IRIS. Ms Clift noted that although the new system would be slower in some functions, by a matter of seconds, there would be gains in the overall cycle times. Under the old paper system, it often took 24 hours to retrieve a document. In SIRIS, data would be available within 30 – 40 seconds and documents could be moved electronically between desks. Therefore significant time efficiencies would be achieved.
- Auditing Aspects. SIRIS was designed to audit data as it arrived and therefore the material required would be available at the time of processing a retirement. Once all data had been cleaned, this would represent significant timesavings and accuracy of processing. It was noted that the Virginia Retirement System is starting a project to process a retirement within 9 minutes.
- Request Processing. SIRIS only permits one record to be processed at a time. In IRIS, several could be displayed simultaneously on the screen. However, this increased the risk of errors in data entry. In this respect, SIRIS was slower, but it incorporated the necessary checks and balances to ensure that the customer would receive a better final product.
- Data Integration. All data had been integrated into SIRIS. Previously, data had been stored in the IRIS system and the pre-IRIS system.
- Mr. Doermer asked if PERF had gained any costs benefits by accomplishing the project in conjunction with TRF. He was advised that there had been some cost benefits, although TRF had staffed the RFP, and selected the vendor, there had been no actual system work done at the time PERF became involved. Ms. Turner noted PERF’s efforts to work in conjunction with TRF on this project. Mr. Butler noted that this project represented the first example of agencies working together to use the same system.

5. 1977 FUND POLICE OFFICERS' AND FIREFIGHTERS' FUND

- Mr. Gohmann advised that two public safety officer line of duty disability determinations and one line of duty death determination would be presented at the 1977 Fund Advisory Committee meeting on April 22, 2002.
- Legislation had been passed authorizing the Deferred Retirement Option Plan (DROP). These plans were popular, particularly among public safety forces. This would come in effect on January 1, 2003. In preparation, PERF was preparing the necessary procedures to administer this option for the different plans. PERF is preparing an educational program on the DROP to present to public safety audiences in 4 – 8 regions of Indiana this summer. The target audiences will be police officers and firefighters, pension secretaries, and city officials. PERF was recently invited to appear at a State Board of Accounts Annual Conference for Clerk Treasurers. A trial presentation had been made in Evansville at a state FOP Meeting. Ms. Ghilarducci asked if the DROP plan meant that there would be more predictable retirement trend in cities and towns and if this would encourage safety personnel to work longer. Ms. Braitman noted that this had been a police and firefighter initiative that had been brought to the 1977 Fund Advisory Committee. The Indiana Association of Cities and Towns (IACT) had subsequently shown interest in the program. This gives them some predictability of when retirements may occur. Members eligible for this program were already eligible for retirement. Participants would receive a lump sum at the beginning but the effect would be a proportional reduction in the monthly benefit paid out. However, this option provided some additional benefit flexibility that people in many other jobs already have. The purpose of the education program was to ensure that members were making an educated choice.

6. BENEFITS ADMINISTRATION. The Benefits Administration Committee meeting had been combined with the Board meeting. Subjects addressed included:

- Benefits Production and Processing Times. Mr. Scott noted that the figures for new member applications and refund applications were for the period February 14 to April 4, 2002. This was due to a changeover in reporting mechanisms.
  - ❑ New Member Applications. For the period of review, 2,900 new member applications had been received. The Benefits Department had processed 5,300 applications. This had diminished the backlog inventory to 513 applications, compared to 5,000 in January 2002. It is hoped to eliminate the backlog within a few months. Additional staff is assisting in scanning applications and adequate staff is now available to maintain a 30-day processing time. It was noted that some of the applications being processed are for personnel moving between PERF-covered positions.
  - ❑ Refunds. Refunds are made to members who had terminated their employment and had requesting reimbursement of their ASA account balances. Refunds were now being processed within 30 days (compared to 120 days in January 2002).

Personnel from other projects were being used to process the refunds in order to eliminate the inventory backlog that had risen to 2,800 and was continuing to grow by 250 – 350 per month. This generated a great number of complaints because members had to wait 3 – 4 months before receiving refund checks.

- ❑ Retirement Applications. The annual growth rate in retirement applications is 1 – 1.5%. Approximately 250 members retire each month. For this reporting period, PERF had received 180 retirement applications and processed 265. The backlog inventory was 343 and this would probably take between 45 – 60 days to work through. Mr. Birge asked if the calendar was being decided to achieve the goal of providing an estimated 85% benefit payment. He was advised that, subject to a smooth transition with SIRIS, it was planned to be able to offer uninterrupted benefits to members within the next six months. Mr. Birge stressed the importance of this issue and asked for a report to be provided at the next Board meeting on the actions and obstacles involved in achieving the payment of estimated retirement checks. Mr. Doermer asked if employers could submit applications in advance of the retirement in order to minimize interruption payments. Currently, first checks are received within 45 – 60 days after the retirement and because the amount paid is 100%, PERF must be sure that the amount being paid is correct. To do this, end dates of employment must be verified and much of the data required for processing can only be accumulated after retirement. With estimated checks, it will take PERF approximately two months to verify the figures and differences in figures will be compensated accordingly.
- Employer Advisory Group (EAG). A group comprising 11 employers had met on Wednesday, April 10, 2002. Mr. Lane advised that the meeting had been successful and feedback from the employers at the meeting had been positive. Mr. Lane considered that the relationship between PERF and this segment of the employer base was improving. The agenda items were small in number, but had involved substantive discussion.
- ❑ The new Call Manager was introduced and the development of the Call Center was explained.
- ❑ The EAG was given an extensive presentation on electronic reporting, which emphasized the advantages to PERF and the employers to be gained from moving from a manual paper process of reporting to an electronic process. This could be introduced for PERF's 30 largest employers, representing 80% of PERF's membership. A demonstration was given on the procedures to be used in the proposed program for reporting electronically. It was noted that this process could be further improved by increasing the frequency of the valuation process (PERF currently operates using one quarter in arrears).
- ❑ Mr. Gohmann updated the group on recent legislative changes.

- ❑ The next meeting will be held in July/August when the agenda will include Outreach Services, the concept of estimated benefits and the actuarial calendar. Information will be provided on SIRIS Stage II and the Call Center.
- ❑ Ms. Ghilarducci suggested that it would be useful for the group to complete an evaluation sheet to provide feedback to PERF. Mr. Birge noted that many employers were not represented at the EAG and asked if they were kept informed of developments in PERF via a newsletter. He was advised that employers were sent a biannual newsletter that addressed primarily employer administration issues.

7. INVESTMENTS. Steven Miller provided a summary of the Investments Committee Meeting held that morning.

➤ Manager Searches. Ms. Braming provided details how the search had been effected and provided an overview of the types of firms that responded to the Request for Proposal (RFP).

- ❑ A domestic equity analysis had been conducted in September 2001. The Board approved active allocations to small and mid cap equity based upon analysis. RFPs had been posted in January 2002 for mid cap value and growth and small cap value and growth. Managers responded in writing to PERF with the contract and provided further information via the PERF web site. They received over 190 responses. This was reduced to seven semi-finalists for the small cap value, five for the mid cap value, and six for the small cap growth and mid cap growth. Interviews were conducted at PERF and on-site. Finalists met with the Investment Committee on March 27, 2002. A list of approved asset allocations and recommended number of managers was provided. The deadline for mid cap value was extended.

Mid Cap Growth	Strong Capital	1.5%
Mid Cap Growth	Brown Capital	1.1%
Small Cap Growth	Brown Capital	0.5%
Small Cap Growth	Progress	1.8%
Small Cap Growth	TimesSquare	1.8%
Small Cap Value	Numeric	1.5%
Small Cap Value	Osprey	2.3%

**MOTION** duly made and carried to approve the selection of Fund Managers as recommended by the Investment Committee:

*Proposed by: Jonathan Birge*  
*Seconded by: Teresa Ghilarducci*  
*Votes: 5 for, 0 against, 0 abstentions*



- ❑ Details of actual funding and asset allocation will be provided for the Board's approval at the next Board Meeting.
  - ❑ In response to Mr. Doermer, Mr. Miller reviewed the benefits of using Progress in a fund-of-funds approach. PERF prefers to establish direct relationships with investment management firms. The Progress relationship would provide exposure to emerging, women and minority owned firms. The Fund could not invest in all these firms on an individual basis. Progress also provided additional oversight for these portfolios and provided guidance to the firms in the program. In addition, PERF could customize the exposure of this portfolio as a completion fund for small/mid exposure.
  - Alternative Investments. Mr. Miller noted that the PERF staff had completed a tremendous amount of work and due diligence, and PERF was now in a position to consider its first alternative investment commitment. PERF would also issue an official announcement inviting firms to submit investment proposals. Ms. Gerrick advised that Lindsay Goldberg & Bessemer was invited to attend the May 10, 2002 Board Meeting.
8. FINANCIAL. Mr. Mills provided an update of the nine-months to date budget spending for FY02 and the full-year revised budget year-ending June 2002 for approval.
- FY02 Actual to Date (9 months). In the nine months to date actual expenditure had been \$17 million; \$9 million of this amount constitutes investment fees. The SIRIS project represents an additional \$5.8 million, of which \$2.4 million had been billed to TRF as their share of the project to date.
  - FY02 Revised Budget for Full Year. The total amount for FY02 was estimated at \$28 million. The largest part of this is for investment fees (over \$16 million). PERF's share of the SIRIS project would be approximately \$7.5 million. It was noted that PERF was three quarters of the way through the year and had only spent 61% of the budget. Mr. Mills noted that there would be significant expenses in the remaining three months, primarily due to system related issues such as the backfile conversion project and data cleanup project as well as higher investment fees from new money managers. PERF was operating on a cash basis until year-end when the accruals would be set up and financial statements converted to the accrual basis.

**MOTION** duly made and carried to approve revised budget for the year to end June 30, 2002.

*Proposed by: Steven Miller*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

Mr. Doermer congratulated the staff on a job well done in providing meaningful information.

9. EXECUTIVE SESSION. The Board met in Executive Session under IC 5-14-1.5-6.1(b)(2) (strategy with respect to litigation).
10. NEXT MEETING. The next meeting of the Board will be held on Friday, May 10, 2002, at 1:00 p.m.
11. ADJOURNMENT. There being no further business, the meeting was adjourned.

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Jonathan Birge  
Chairman

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E. William Butler  
Executive Director